

Message Text

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ACTION EUR-12

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C O R R E C T E D C O P Y (CLASS LOU VICE CONFIDENTIAL)

E.O. 11652: N/A
TAGS: EFIN, EALR, GR
SUBJECT: GOG RESORTS TO PRICE CONTROLS AND CRACKDOWN ON TAX
EVASION IN BATTLE AGAINST INFLATION

REF: (A) ATHENS 5163, (B) PARIS 19031

1. SUMMARY: DESPITE ITS REJECTION OF COMPULSORY WAGE/PRICE
GUIDELINES AT THE EDRG REVIEW IN JUNE (REF B), THE GOVERNMENT
DID ANNOUNCE A FREEZE ON RENTS AND PRICES OF SELECTED EARLIER
THIS WEEK. TWO DAYS LATER, THE FINANCE MINISTER REVEALED
TOUGH NEW MEASURES TO DEAL WITH TAX EVADERS AS WELL AS SOME
REFORMS IN TAX SCALES TO GIVE RELIEF TO LOWER-INCOME GROUPS.
THIS COMES IN THE WAKE OF CONSIDERABLE CRITICISM BOTH BY THE
PUBLIC AND THE OPPOSITION THAT THE STABILIZATION MEASURES ANNOUNCED
LAST JUNE BY COORDINATION MINISTER MITSOTAKIS (REF A), WHICH
RELIED LARGELY ON CLASSICAL FISCAL AND MONETARY POLICIES,
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WERE "TOO LITTLE AND TOO LATE." THE CRITICISM IS SOMEWHAT
UNFAIR, SINCE SOME LAG MUST BE EXPECTED BEFORE RESULTS ARE FELT.
MOREOVER, THE GOVERNMENT COULD NOT HAVE ANTICIPATED THE
THESSALONIKI EARTHQUAKE, WHICH PLACED AN ADDITIONAL BURDEN ON
THE ECONOMY. WHATEVER THE REASONS, THE GOVERNMENT APPARENTLY
NOW FEELS PRESSURED TO ACHIEVE QUICK AND VISIBLE RESULTS,
AND HAS THEREFORE OPTED FOR DIRECT CONTROLS. END SUMMARY.

2. ACCORDING TO A PRESIDENTIAL DECREE, RENT INCREASES BEFORE THE END OF THE YEAR ARE PROHIBITED, AND VIOLATIONS WILL BE CONSIDERED A CRIMINAL OFFENSE. THIS EXCLUDES PREMISES TO BE LET FOR THE FIRST TIME. ON LEASES OF THOSE PROPERTIES WHICH WERE VACANT FROM MAY 1, 1978, OR WERE PREVIOUSLY OCCUPIED BY THE OWNER, THE LESSEES MAY PETITION TO THE COURTS IF RENTS DEMANDED ARE CONSIDERED EXCESSIVE. RENTS MAY BE RAISED AT THE BEGINNING OF 1979, BUT ONLY BY AN AMOUNT TO BE DETERMINED JOINTLY BY THE MINISTERS OF COORDINATION, FINANCE AND COMMERCE.

3. IN ADDITION TO PRICE CONTROLS ALREADY IMPOSED ON FRUITS AND VEGETABLES, PRICES FOR WINTER CLOTHING, FOOTWEAR, CONSTRUCTION MATERIALS, RESTAURANTS, LAUNDRIES AND CINEMAS HAVE NOW BEEN FROZEN FOR THE REST OF THE YEAR.

4. TWO DAYS AFTER THE PRICE AND RENT CONTROLS WERE INTRODUCED, MINISTER OF FINANCE KANELLOPOULOS ANNOUNCED ADDITIONAL MEASURES TO TACKLE TAX EVASION. TO SWEETEN THE PILL, HE ALSO SAID THAT THE VERY PROGRESSIVE TAX SCALES WILL BE REVISED TO LIFT SOME OF THE BURDEN FROM LOWER-INCOME GROUPS. KANELLOPOULOS ESTIMATED REVENUE LOSSES AT AROUND 100 BILLION DRACHMAS (COINCIDENTALLY, THE SAME NUMBER GIVEN BY PAPANDREOU DURING THE ELECTION CAMPAIGN LAST YEAR), WHICH IS 40 PERCENT OF PROJECTED REVENUES FOR 1978. TO CRACK DOWN ON THOSE RESPONSIBLE, THE GOVERNMENT WILL HENCEFORTH PUBLISH DECLARED INCOME OF TAXPAYERS; ESTIMATE INCOMES BASED LIMITED OFFICIAL USE

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ON VISIBLE PROPERTY (CARS, HOUSES, YACHTS, ETC.) IRRESPECTIVE OF DECLARED INCOME; CONSIDER TAX EVASION BY FRAUD AS A CRIMINAL OFFENSE PUNISHABLE BY IMPRISONMENT FOR SIX TO TWELVE MONTHS AND LOSS OF CIVIL RIGHTS FOR TWO TO FIVE YEARS; DEPRIVE THOSE WHO EVADE TAXES ON LEASE OF REAL PROPERTY OF THE RIGHT TO TRANSFER THAT PROPERTY FOR A PERIOD OF TEN YEARS; AND ESTABLISH A SPECIAL TAX OFFICE TO CONTROL THE MOVEMENT OF GOODS. TAX RELIEF MEASURES, IN ADDITION TO REVISED TAX SCALES, INCLUDE ABOLITION OF CERTAIN TAXES WHICH ARE NOT LUCRATIVE AND INCREASES IN EXEMPTABLE LIMITS FOR INHERITANCE, DOWRY AND GIFT TAXES.

5. COMMENT: ALTHOUGH PRICE CONTROLS DO NOT DEAL WITH THE UNDERLYING CAUSES OF INFLATION--IN GREECE'S CASE LARGE PUBLIC SECTOR BUDGET DEFICITS, AN ACCOMMODATING MONETARY POLICY, NOMINAL WAGE AND SALARY INCREASES IN EXCESS OF PRODUCTIVITY, HIGH PROFIT MARGINS IN RETAIL TRADE, ETC.--THEY WILL CERTAINLY HAVE A DIRECT IMPACT ON THE CONSUMER PRICE INDEX, THEREBY BUYING TIME AND GIVING THE GOVERNMENT SOME AMMUNITION IN ITS BATTLE TO HOLD DOWN WAGE DEMANDS NEXT YEAR. TO MAKE ANY REAL INROADS ON INFLATION, HOWEVER, THE GOG WILL EVENTUALLY HAVE TO DEAL WITH THE ROOTS OF THE PROBLEM BY TAKING STRONG MEASURES WHICH COULD REDUCE REAL LIVING STANDARDS. ON THE FACE OF IT,

THE TAX EVASION CRACKDOWN IS A STEP IN THIS DIRECTION. HOWEVER,
IMPLEMENTATION OF THE NEW MEASURES WILL BE THE TEXT OF THEIR
EFFECTIVENESS, AND IN A COUNTRY WHERE TAX EVASION IS A WAY OF
LIFE AND CASH IS THE MOST USUAL METHOD OF PAYMENT, THIS WILL NOT
BE EASY.

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